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RR RUEHWEB

DE RUEHMS #0879 2440656
ZNR UUUUU ZZH
R 010656Z SEP 09
FM AMEMBASSY MUSCAT
TO RUEHC/SECSTATE WASHDC 0723
INFO RUEHMS/AMEMBASSY MUSCAT

UNCLAS MUSCAT 000879

SENSITIVE, SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [PREL](#) [MU](#)

SUBJECT: Bouyed by Increase in Oil Revenue and Sound Fiscal Policy,
Oman's Economy Weathering Economic Downturn

REF: MUSCAT 161

¶1. (U) SUMMARY. Regional and national dailies reported that the GoO will post a budget surplus for the year. Although the economy has rebounded from a forecasted decrease in GDP, its performance is, as always, linked to the price of oil. The slowing inflation rate is traceable to the economic downturn and a comparatively modest counter cyclical spending increase by the GoO. Of further note is the potential link between a decrease in customs revenue and the U.S.-Oman Free Trade Agreement (FTA), although the bulk of the decrease is traceable to the global downturn. END SUMMARY.

¶2. (U) On August 29, Dubai-based English daily "Gulf News" predicted that the Omani economy should produce exceptional results this year. The report noted that oil production is up from an average of 757,000 barrels per day (bpd) in 2008 to a projected average of 805,000, while inflation is tapering from its peak of 14% in 2008 to a forecasted level of 3.2% by the end of the year. The article predicted that the rise in oil production will allow for a GoO budget surplus. On August 31, the "Times of Oman" similarly reported positive economic indicators. The "Times of Oman" article sources a study by the Kuwaiti think-tank Global Investment House; "Gulf News" appears to have used the same source.

¶3. (U) This news comes despite the 21.3% fall in GoO revenues at the end of June when compared to the same period a year ago. For January through July the Ministry of National Economy (MNE) reported a 43% decline in oil revenues from a year ago. Although bpd figures may be up, increased production could not completely offset a decline in the price per barrel (ppb). Recent indicators show the positive effects of the increase in oil revenue in the second half of 2009, however. For example, although the MNE initially predicted a budget shortfall for the year of \$2.1 billion based upon oil fetching \$45 a barrel, current projections indicate that the GoO will have a small budget surplus of approximately \$6.5 million for the year. Although any budget surplus in the global downturn is impressive, the current surplus pales when compared to the \$2.7 billion surplus of a year ago. The fact that oil production is at 807,000 bpd reflects that the GoO is on target to meet the MNE goal, set in January, of an average 805,000 bpd.

¶4. (U) A report by United Securities traced the high inflation rate of 2008 to the dramatic increase in GoO spending for that year, 19% over GoO spending in 2007, which caused the price in foodstuffs and rent to increase at a rapid pace. This year the GoO increased government spending by a modest 5%, which, combined with the economic downturn, accounts for the tapering of inflation. The GoO had, however, planned for a recessionary-cycle and was prepared to spend to offset the predicted shortfall in oil revenue.

¶5. (SBU) The FTA may be partially responsible for the decrease in customs revenue. According to the MNE, customs revenue for July fell by 23.6% from a year ago. Although the fall in world trade undoubtedly accounts for the bulk of the decrease, the loss of duties paid by US exporters as a result of the FTA may account for a portion thereof, as the U.S. accounts for 7.4% of imports. The FTA went into effect on January 1.

16. (SBU) COMMENT. The recent reports appear to be accurate. Oman is a typical petrol-state whose economic outlook largely tracks the price per barrel. Recent increases in oil production and in the price per barrel have no doubt been a boon to the economy. However, as over seventy-five percent of total revenues are derived from petroleum, for the immediate future, oil and the Omani economy remain codependent. Of particular note is the success of the Omanis in planning for and adapting to global economic conditions. END COMMENT.
HURTADO